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DRAFT REPORT OF THE SPECIAL COMMITTEE ON PREFERENCES ON ITS TWENTY-FIRST SESSION

Held at the Palais des Nations, Geneva,
from 16 to 20 May 1994

Rapporteur: Mr. Z. Baltacioglu (Turkey)

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

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Chapter I

REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES, INCLUDING PREPARATIONS FOR THE 1995 POLICY REVIEW ON THE GSP

(Agenda item 3)

CONSULTATIONS ON HARMONIZATION AND IMPROVEMENT OF THE RULES OF ORIGIN

(Agenda item 4)

TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 5)

(continued)

63. The representative of **Côte d'Ivoire** wished to thank the secretariat for organizing a regional seminar in Lomé and a national one in Abidjan in 1991. These seminars had had a positive effect in so far as they had allowed officials charged with the day-to-day administration of GSP to become better acquainted with the system. They likewise helped in disseminating information on the GSP schemes among entrepreneurs. These activities had resulted in an increase in GSP utilization. The GSP was without doubt one of the best instruments for multilateral cooperation aimed at increasing North-South trade. His Government attached particular importance to the GSP since the devaluation of the CFA franc. This devaluation would have, as a consequence, greater competitiveness for exports from the Côte d'Ivoire. The recent developments, following the Uruguay Round conclusions, offered real prospects despite the erosion of the preferential margin. He then requested the UNCTAD secretariat to undertake a study on the impact of the Uruguay Round conclusions in relation to the GSP.

64. The representative of **Indonesia** declared support for the statements by the spokesmen for the Group of 77 and the Asian Group. The GSP, after more than two decades in operation, had proved to be one of the most durable and effective instruments of trade and development cooperation between developed and developing countries. The advantage which developing countries had been enjoying from a better market access in developed countries provided them with the means to

continue their development programmes and had enabled them to increase their purchases from the developed countries. GSP was highly appreciated by many developing countries for the possibilities it offered for expansion and diversification of exports to developed countries. However, the system had not yet achieved its full potential. According to the secretariat report, only slightly over 25 per cent of imports by the preference-giving countries actually received preferential treatment in 1992. This concerned imports subject to the MFN duties and thus within the purview of GSP. This showed that the system should be revitalized and that fresh and innovative approaches to its design, review and improvement were necessary. This was in line with the objectives of the Cartagena Commitment, which emphasized the importance of substantial expansion of product coverage to include hitherto excluded products of current and potential export interest of developing countries. Simplifying and harmonizing the rules of origin was another concern. In this context, the meeting of the Special Committee provided an opportunity to take stock of its achievements and to see how further gains could be made as well as to begin preparations for the 1995 policy review on the GSP. Recently, the world economy was undergoing drastic changes with a major influence on the GSP. With the successful conclusion of the Uruguay Round, GSP tariff preference margins in favour of developing countries would be eroded. The rapid intensification and expansion of large economic spaces embracing the major trading nations of the world and the rapid progress in globalization of production, investment and trade would have implications for the effectiveness of the GSP. Therefore, in order to maintain the usefulness and effectiveness of the GSP, it was imperative that the preference-giving countries made favourable adjustments to their schemes and improve GSP coverage following the tarification of goods. In this connection, he also requested the secretariat to study further the impact of the Uruguay Round on the implementation of GSP and to identify follow-up actions required to strengthen the effectiveness of the GSP.

65. With regard to the technical cooperation activities in the GSP, his country believed that these activities had contributed significantly to the increasing use being made of the GSP by beneficiary countries. The secretariat report had pointed to the high demand for technical assistance on the GSP; there were consequently many requests for training and advisory activities from beneficiary countries seeking to enhance the utilization rate of the GSP. In view of the demand, it was a source of profound concern that the funds needed for such activities in 1993 had declined. He, therefore, appealed to all donor countries and UNDP to give attention to this situation and to provide further assistance either in the form

of trust funds or in-kind contributions so as to augment the resources needed to meet the demands from developing countries for technical assistance.

66. Finally, he noted that it was gratifying to hear that the Canadian and Japanese schemes had been given a 10-year extension. These extensions were surely demonstrations of good will towards the developing countries. It was hoped that similar action would be taken by other preference-giving countries in the near future.

67. The representative of **Algeria** said that the GSP now held particular importance in the light of the recent liberalization of world trade and the new trading rules agreed on in Marrakesh within the framework of the Uruguay Round. The principles of the GSP remained fully valid for the African countries in so far as they both aimed at integrating them into world trade and diversifying their exports and economies. Most countries attached great importance to preferential trade as an instrument to increase trade. She welcomed the decision to hold the 1995 policy review. If this review were inspired by the "Spirit of Cartagena", it would guide both developed and developing countries to agree on the expansion of product coverage and the harmonization of rules of origin. The Special Committee should consider the present session as a preparatory meeting for a successful 1995 policy review. On the proposal to consider a "green GSP", in view of the inherent financial and technical implications, attention should be given to the fact that adequate prior technical assistance would need to be provided.

68. The representative of the **European Community** said that this particular session was especially important, as it would launch the preparations for the GSP policy review. It was also the first session since the conclusion of the Uruguay Round, which had ushered in a new era in the multilateral trading system and marked the start of genuine integration of the developing countries into that system. In the face of this challenge, the Committee could take only one approach to overcoming any obstacles, and that was dialogue. The results of the work of the Ad Hoc Expert Group enlisted to help the Committee in this task were welcomed (TD/B/SCP/9).

69. The most striking feature of the Community's own GSP over the past few years was the marked rise in the utilization rate, from ECU 8 billion in 1981 to more than ECU 27 billion in 1992. This reflected not just a better take-up but also a change in the make-up of certain beneficiary countries' exports, particularly Asian countries which had been exporting more manufactured products. On the whole the

product coverage and utilization rate of the Community scheme had been again relatively high in 1992 (see also TD/B/SCP/6), with 87.5 per cent of dutiable imports from beneficiary countries covered by the scheme and 35.6 per cent of those admitted under the preferential arrangements. The product differentiation policy adopted in 1981 had had an effect. Some countries had seen a marked growth in their GSP trade with the Community in recent years, at the expense of the most competitive countries, and had in turn become extremely competitive in certain sectors. Asia had been the major GSP beneficiary, accounting for almost 70 per cent of the preferential advantage in 1992. The large proportion of GSP preferences taken up by Asia reflected the region's swift industrialization and the improvement in the terms of trade for manufactured products.

70. The position of the least developed countries (as classified within the United Nations) was still weak: in 1992 they had accounted for 1.2 per cent of imports from beneficiaries and 1.7 per cent of GSP benefits. Even more worrying was the fact that GSP take-up by the least developed countries was, at 51.6 per cent, only slightly higher than the figure for GSP beneficiaries as a whole (45.5 per cent), despite their freedom from quotas or ceilings.

71. The Uruguay Round outcome had reduced both the need and the scope for significant preferential treatment in several product categories. Overall, the weighted average Community tariff on industrial products would be cut gradually from 6.8 per cent to 4.1 per cent, a reduction of 37 per cent. In some sectors - building equipment, medical and pharmaceutical equipment, furniture, steel, agricultural equipment, paper, toys, beer and certain spirits - duties would disappear altogether; in others, they would be aligned with other countries' tariffs or cut. With the reduction of the preferential margin owing to the conclusion of the Uruguay Round, it would be necessary to target what remained of the preferential margins on those countries most in need of them. The Community's target was to enable the GSP to play its proper role as a tool to aid development, in particular to the benefit of the poorest developing countries. This was also reflected in Article 130u of the Treaty on European Union which placed "sustainable economic and social development" and "the smooth and gradual integration of the developing countries into the world economy" among the prime policy objectives.

72. The subject of graduation had been approached with a fresh and reassuring candour in TD/B/SCP/9 but it did not iron out all the ambiguities. Graduation was not an instrument to protect the interests of the donor countries, but first and foremost a mechanism for making sure that the advantages of the GSP were

redistributed to those who needed them. The possible withdrawal of certain GSP benefits from some countries, if it complied with honest and objective criteria, would not have the effect of restricting trade but would simply reduce a tariff advantage which had become meaningless so that others could derive increased benefits from it. This meant that any reflex to defend "acquired rights" should not be part of the discussions. Beneficiary countries should accept that the GSP, like any other cooperation instrument, had a transitional function: aid was granted commensurate with need and hence should be phased out when the need no longer existed. The difficulty, of course, lay in deciding on the latter. The only recourse was to measure needs against GSP's basic objectives: higher income and industrialization. The GSP had attained its objectives and served its purpose once a beneficiary country had entirely or partially reached a relatively high level of income and industrialization.

73. The ad hoc expert group had recommended (see TD/B/SCP/9) that if graduation did occur, it should be by product or group of products based on a combination of criteria such as industrial capacity, level of development and diversification of exports. The question was how the assessment of the level of development should be done: by measuring the increase in income and level of industrialization or using on a broader notion of development policy, taking into account, in particular, social progress and protection of the environment. The ad hoc expert group addressed the issue in some detail and also discussed a "green" GSP. Sustainable development could initially imply additional costs for the developing countries with consequences for their natural comparative advantages, thus touching the very motor which enabled them to achieve a certain level of industrialization. Therefore help might be warranted in facing these costs. The Community wished to act in close concert with the developing countries as it was the quality of their development which was at stake and not the interests of the donor countries. However, donor countries should not seek to use new development themes as a means of resolving their own competitiveness problems. It was therefore very useful to discuss the matter within the Committee.

74. The low GSP up-take of the least developed countries was a cause for concern. An intelligent graduation policy should encourage economic operators to turn to those countries with the help of adequate flanking measures in terms of trade promotion and investment. Extra effort had to be made, however, on the rules of origin. It was essential that they be accorded adequate derogations. The Community had noted with interest the suggestions put forward by the group of expert on a consultation procedure for these rules. It would endeavour to put into

effect the "donor country" element in the rules of origin, in order to facilitate industrial cooperation with all the beneficiary countries.

75. Technical assistance should be bolstered, particularly for the least developed countries. This would mean stepping up the information seminars organized in the beneficiary countries, widening their scope to embrace information on all the conditions for access to the Community market, increasing Community cooperation in UNCTAD programmes in this field and providing special assistance to help the developing countries implement the results of the Uruguay Round.

76. The representative of **China**, addressing the subject of harmonization and improvement of the rules of origin, said that increased complementarity of trade between countries and the wide-spread phenomenon of specialization and regionalization of the manufacturing industry usually made it impossible to complete the manufacturing process in one single country. This was particularly so for high-tech products. The global cumulation rule adopted by some preference-giving countries undoubtedly contributed to fuller utilization of the GSP and was conducive to the economic and trade cooperation between the developing and developed countries. Gradually shifting towards a socialist market economy, China had improved the environment for investment, in particular, foreign direct investment. The manufacturing of many products excluded the possibility of one origin; most raw materials came from developing countries and regions. China could not benefit from "regional rules of origin" as it was not a member of any regional economic group. Therefore, his country appealed to all the relevant donor countries to adopt the global cumulation rule in their rules of origin.

77. He also called upon preference-giving countries to adopt the donor-country content rule. Owing to increasing international trade, cheap labour and lower production costs, many products were manufactured in developing countries using an increasing portion of imported inputs from developed countries. These products were then exported to developed country markets. However, the rules of origin requirements for eligibility under various schemes discouraged such a manufacturing pattern. As applied to transitors, for example, the requirements for high technology inputs precluded production in developing countries which had not yet acquired the necessary capacity. For another example, his country was exporting toys and electronic products using many raw materials imported from donor countries. The universal adoption of the donor country content rule by all preference-giving countries would contribute to the development and balance of the economy and trade for both sides.

78. Regarding rules of origin on textiles and clothing, he referred to the recent welcome decision by Japan to revoke the rule that imported raw materials for non-knitted clothing must be in the form of yarn, thus allowing clothing made of imported fabrics to enjoy GSP benefits. Other donor countries might take steps to change their requirements, and preference-giving countries should be encouraged to adopt the positive measures taken by Japan.

79. The representative of **Poland** stated that his country simultaneously benefited and granted GSP treatment. Hence there was clear recognition of the great importance of this measure for the development and restructuring of the economy. Under the scheme of Poland two groupings of countries were eligible for preferential treatment: Least Developed Countries designated by the United Nations and non-European developing countries with a GDP per capita not exceeding Poland's. The list of the latter countries was compiled and regularly updated on the basis of the most recent edition of the Handbook of International Trade and Development Statistics. It was therefore important that the Handbook accurately reflected the level of economic development of all developing countries. Regarding amendments made to the scheme, in July 1993 there had been a shift from 8-digit to 9-digit Polish Combined Nomenclature, which resulted in doubling the number of tariff items. Since that date the previously applied general rule, whereby the preferential rates from developing countries amounted to 70 per cent of the MFN rates, had been abolished. However, most tariff items covered by the scheme had been maintained at that level. The Government of Poland was in a position to increase the preferential margins whenever it was justified from the point of view of the domestic industry. The least developed countries were still granted a zero rate for all items covered by the scheme. Moreover, unprocessed tropical products benefited from duty-free preferential access for both the least developed countries and the developing countries covered by the scheme. The full scheme was set out in the Annex to the Governmental Decree of 21 December 1993, published in the Journal of Laws, No. 128, item 591. It was published together with the Polish Customs Tariffs in two volumes; a copy deposited with the UNCTAD secretariat was available for reference. Statistics had shown that the value of imports from developing countries to Poland under the GSP treatment amounted to US$ 419.6 million in 1992 and to US$ 457.6 million in 1993. The respective imports from the least developed countries were US$ 45.7 million and US$ 34.3 million. Imports eligible under the scheme represented 72.8 per cent in 1992 and 61.4 per cent in 1993 of the global imports from the beneficiaries of the Polish scheme. Implementation of the Uruguay Round tariff commitments would undoubtedly erode the margin of preferences for the developing countries. Hence, his Government felt

that certain ideas mentioned in TD/B/SCP/6, such as a "green" GSP and a "GSP for services" merited further in-depth consideration.